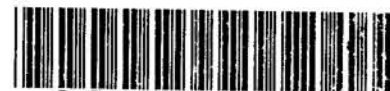


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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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TOM FORESE— Chairman
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ANDY TOBIN
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MAY 17 2017

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01345A-16-0036

IN THE MATTER OF FUEL AND
PURCHASED POWER PROCUREMENT
AUDITS FOR ARIZONA PUBLIC SERVICE
COMPANY.

DOCKET NO. E-01345A-16-0123

STAFF'S INITIAL CLOSING BRIEF

The Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission") hereby submits its Initial Closing Brief in the above-captioned matter as directed by the Administrative Law Judge ("ALJ") on May 2, 2017.

I. INTRODUCTION.

Arizona Public Service Company ("APS" or "Company") the largest electric provider in Arizona, filed an application for a rate increase on June 1, 2016.¹ APS's current filing came approximately five years after APS's last rate case filing which utilized a 2010 test year.² APS requested a net increase of \$165.9 million in base rates, or a 5.74% increase.³ APS indicated that the average annual bill impact for a typical APS residential customer would be \$11.09 per month, or 7.96%. On March 27, 2017, twenty-nine parties including Staff and the Residential Utility Consumer Office ("RUCO") filed a comprehensive Settlement Agreement ("Agreement" or "SA") resolving all

¹ The Company's application was based upon a 2015 test year.

² Lockwood Dir. Test., Ex. APS-1 at 2.

³ *Id.* at 4.

1 of the issues in this case with the exception of two which the parties agreed to litigate. The
2 Agreement provides for an overall \$87.25 million, non-fuel, non-depreciation revenue requirement
3 increase or a net base rate increase of \$94.624 million.⁴ The Agreement was signed by parties
4 representing a broad array of diverse interests, is balanced, results in just and reasonable rates and has
5 many benefits as discussed herein.

6 **II. BACKGROUND.**

7 APS is the largest subsidiary of Pinnacle West Capital Corporation. APS is also the largest
8 electric provider in Arizona serving more than 1.2 million customers in 11 of Arizona's 15 counties.
9 APS employs more than 6,300 employees, including employees at jointly-owned generating facilities
10 for which APS serves as the generating facility manager. In addition to the Palo Verde Nuclear
11 Generating Station, APS owns and operates six natural-gas plants, two coal-fired plants, and an
12 increasing array of renewable energy power generation. APS has infrastructure consisting of more
13 than 35,000 miles of transmission and distribution lines.⁵

14 The Company's last rate case resulted in a settlement ("2011 Settlement") that continued
15 efforts to improve APS's financial outlook with the objective of improving the Company's overall
16 financial health and reducing the overall capital costs of the Company. At the same time, the 2011
17 Settlement sought to provide significant benefits to ratepayers, with one of the principle benefits
18 being a rate moratorium for a period of four years.⁶ This was accomplished through several targeted
19 adjustment mechanisms such as the Lost Fixed Cost Recovery ("LFCR") mechanism and the
20 Environmental Improvement Surcharge ("EIS"), and refinements to other adjustment mechanisms
21 such as the Power Supply Adjustment ("PSA") and the Transmission Cost Adjustment ("TCA"). In
22 addition, the Agreement included a property tax deferral provision and a provision which allowed the
23 Company's additional investment in Four Corners Units 4 and 5 to be included in rates at the end of
24 2014.⁷ Another significant feature of the 2011 Settlement was the adoption of an experimental large
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26 ⁴ SA, Ex. APS-29 at 8.

27 ⁵ Froetscher Dir. Test., Ex. APS-14 at 3.

28 ⁶ Decision No. 73183 (May 24, 2012) at 10, 11.

⁷ See also, Lockwood Dir. Test., Ex. APS-1 at 3.

1 ratepayer buy-through tariff called AG-1 that would permit a limited degree of customer choice in
2 selecting a source for energy.

3 Significant changes occurred in the industry since the Commission's adoption of the 2011
4 Settlement in Decision No. 73183 and the current case. APS witness Lockwood testified that APS
5 experienced significant growth in rooftop solar with DG customers increasing from 5,542 at the end
6 of 2010 to approximately 38,426 at the end of 2015.⁸ Witness Lockwood testified that at the time of
7 APS's application, rooftop solar continued to grow by more than 1,300 applications per month in
8 2016.⁹ Advanced technologies (behind the meter and grid related) also continued to evolve which
9 affect the way APS customers use electric service and how APS provides service.¹⁰ Changes in the
10 natural gas industry, including fracking, have resulted in lower gas prices since the last case.¹¹ New
11 environmental requirements continue to place economic burdens on older plants owned by the
12 Company.¹² Finally, APS witness Lockwood testified that APS invested approximately \$3.1 billion
13 in new plant through 2015 and will invest another \$5.6 billion between 2016 and 2020.¹³

14 Some of these changes were manifested in proceedings before the Commission. For instance,
15 the Commission acted upon an application by APS to begin to address a cost-shift from distributed
16 generation ("DG") customers to non-DG customers in the LFCR in Decision No. 74202 (December
17 3, 2013). The Commission addressed issues pertaining to the accounting for renewable energy
18 credits in a post-incentive environment in Decision No. 74365. The Commission launched an inquiry
19 into the value and cost of DG and issues pertaining to net metering and adopted two models to be
20 used in future rate cases before the Commission in Decisions No. 75859 and 75932. The
21 Commission held proceedings to resolve APS's request for a step increase to reflect the costs
22 associated with the acquisition of Southern California Edison's interest in Four Corners Units 4 and
23 5. Additionally, the impacts of the AG-1 buy-through rate came under Commission scrutiny due to
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25 ⁸ *Id.* at 2.

26 ⁹ *Id.*

27 ¹⁰ *Id.*

28 ¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

1 the delinking of the separate sunset provision with the effective period of rates leading to concerns
2 about cost-shifting and disagreement over whether the program should be discontinued or modified.

3 APS's current application includes a request for a net base rate increase of \$165.9 million;
4 cost deferrals relating to the installation of selective catalytic reduction ("SCR") equipment at Four
5 Corners as well as for the Ocotillo Modernization Project ("OMP"), a cost deferral related to changes
6 in the Arizona property tax rate, and changes to various depreciation rates. Further, APS requested
7 additional changes to its TCA, EIS, PSA and LFCR mechanisms. The Company also requested the
8 inclusion of an additional 18 months of post-test year plant in rate base.

9 Another significant driver behind APS's application was the Company's desire to update its
10 rate design to reflect changes that had occurred since its last rate case. The Company proposed
11 significant changes to residential and small commercial rate plans in an effort to "modernize" its rate
12 design to reduce intra-class subsidies, better reflect cost of service, provide incentives for deployment
13 of new technologies and offer new rate and billing options.¹⁴ Its application also included new
14 mandatory three-part time varying rates with a demand element for all but its smallest residential
15 customer class.¹⁵ Various new rate options for larger Commercial and Industrial ("C&I") customers
16 were also proposed including a high load factor ("HLF") rate, an aggregation rate and an economic
17 development rate rider.¹⁶ Other General Service rate structures were not changed because according
18 to the Company they are "already properly structured and reflect the cost of service."¹⁷

19 The Company's requested revenue increase was based upon a 10.5 percent cost of equity with
20 the Company's test year capital structure composed of 55.80 percent equity and 44.20 percent long-
21 term debt.¹⁸ The Company proposed a fair value capital structure composed of 37.87% equity,
22 30.00% debt, and 32.13% attributable to its fair value rate base increment and requested a 1.0 percent
23 return on the fair value increment.¹⁹

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¹⁴ *Id.* at 5-6.

26 ¹⁵ Meissner Dir. Test., Ex. APS-4 at 3, 4.

27 ¹⁶ Lockwood Dir. Test., Ex. APS-1 at 5-6.

28 ¹⁷ *Id.* at 6.

¹⁸ Snook Dir. Test., Ex. APS-11, Attach. LRS-3DR at 1 of 1.

¹⁹ *Id.*

1 The following parties were granted intervention in this proceeding: the American Association
2 of Retired Persons ("AARP"), the Arizona Association of School Business Officials ("AASO"), the
3 Arizona Community Action Association ("ACAA"), Arizona Competitive Power Alliance
4 ("Alliance"), the Arizona Investment Council ("AIC"), the Arizona School Boards Association
5 ("ASBA"), Arizona Utility Ratepayer Alliance ("AURA"), the Arizona Solar Deployment Alliance
6 ("ASDA"), the Arizona Solar Energy Industries Association ("AriSEIA"), Arizonans for Electric
7 Choice and Competition and Freeport Minerals Corporation ("Freeport") (collectively "AECC"),
8 Constellation New Energy ("Constellation"), Cynthia Zwick, Direct Energy, LLC ("Direct"),
9 Electrical District Number Six, Pinal County, Arizona ("ED 6"), Electrical District Number Seven of
10 the County of Maricopa, State of Arizona ("ED 7"), Aguila Irrigation District ("AID"), Tonopah
11 Irrigation District ("TID"), Harquahala Valley Power District ("HVPD"), and Maricopa County
12 Municipal Water Conservation District Number One ("MWD") (collectively, Districts), Electrical
13 District Number Eight and McMullen Valley Water Conservation & Drainage District (collectively,
14 "ED8/McMullen"), the Energy Freedom Coalition of America ("EFCA"), the Federal Executive
15 Agencies ("FEA"), Granite Creek Power & Gas and Granite Creek Farms, LLC (collectively,
16 "Granite Creek"), IBEW Locals 387 and 769 ("IBEW"), IO Data Centers ("IO"), the Kroger
17 Company ("Kroger"), Noble Americas Energy Solutions, LLC which later became Calpine Energy
18 Solutions, LLC ("Calpine"), Patricia Ferre, Pima County, Property Owners and Residents
19 Association of Sun City West ("PORA"), REP America, d/b/a ConservAmerica ("ConservAmerica"),
20 the Residential Utility Consumer Office ("RUCO"), Richard Gayer, Solar Energy Industries
21 Association ("SEIA"), Southwest Energy Efficiency Project ("SWEEP"), the Sun City Home Owners
22 Association ("SCHOA"), SunRun, Inc., the City of Sedona ("Sedona"), the City of Coolidge
23 ("Coolidge"), Tucson Electric Power Company ("TEP"), Vote Solar, Wal-Mart Stores, Inc. and
24 Sam's West, Inc. (collectively "Wal-Mart"), Warren Woodward, and Western Resource Advocates
25 ("WRA").

26 In December, 2016, Staff, RUCO, AIC, ED8/McMullen, AECC, Wal-Mart, SWEEP,
27 ConservAmerica, Woodward, FEA and IBEW filed non-rate design direct testimony. On February 3,
28

1 2017, Staff, RUCO, PORA, FEA, Wal-Mart, AIC, Vote Solar, ACAA, SWEEP, SEIA, EFCA,
2 AECC, AURA, City of Coolidge, Kroger, and ConservAmerica filed rate design direct testimony.

3 Staff's direct revenue requirements case included changes to the Company's proposed rate
4 base, expenses, revenues and net operating income, resulting in a recommendation of no revenue
5 increase. Staff agreed with the Company's actual capital structure and embedded cost of long term
6 debt. However, Staff recommended a cost of equity of 9.35% and a 0.5% return on the fair value
7 increment for purposes of deriving a capital structure reflective of the Company's fair value rate
8 base.²⁰ Staff recommended a fair value rate of return of 7.48% using a 0.5% return on the fair value
9 increment.²¹

10 Staff's direct rate design testimony recommended the continuation of two-part rate options for
11 customers. Under Staff's proposal, two-part rate options for DG customers included a Grid Access
12 Charge. Staff was opposed to mandatory three-part rates for any customer class.²² Further, Staff
13 recommended lower basic service charges that decline incrementally from the two-part rate option to
14 the TOU energy rate and three-part demand rate to encourage customers to choose those rate
15 options.²³ Staff further proposed a shorter on peak period for TOU rates. Staff supported: 1) APS's
16 economic development rate, 2) discontinuation of the AG-1 rate unless AG-1 could be done in a
17 manner where no other customer classes would be harmed or asked to subsidize the program, 3) a
18 \$15 non-standard meter reading charge, 4) elimination of the LFCR opt-out rate, and 5) a change in
19 how the LFCR adjustment is applied.²⁴

20 APS filed a Notice of Intent of Revenue Requirement Settlement Discussions on December
21 29, 2016. Staff filed Notice of Settlement Discussions on January 6, 2017. The parties of record
22 subsequently held settlement discussions beginning on January 12, 2017. Another Notice of
23 Settlement Discussions was sent out by APS and Staff separately to the Parties, at or near the time
24 that rate design testimony was filed. Various meetings were held among the Parties to reach
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26 ²⁰ Parcell Dir. Test., Ex. S-3 at 3.

27 ²¹ *Id.*

28 ²² Smith Dir. Test., Ex S-6 at 8.

²³ *Id.* at 33-34.

²⁴ *Id.* at 27.

1 settlement. The settlement discussion were open, candid, transparent and inclusive of all parties to
2 this case.²⁵ Parties reached an agreement in principle and filed a preliminary term sheet on March 1,
3 2017 reflecting the agreement. On March 27, 2017, Staff filed a Proposed Settlement Agreement that
4 was signed by APS, Staff, EFCA, Cynthia Zwick, FEA, Kroger, RUCO, AECC, Wal-Mart, IBEW,
5 Alliance, ACAA, AASBO, ASBA, ASCA, Vote Solar, SEIA, AIC, Western Resource Advocates,
6 Freeport, SCHOA, PORA, SCHOA, ConservAmerica, Constellation, Direct Energy, Calpine, ACPA,
7 the City of Coolidge, and Granite Creek (collectively, "Signatories"). SWEEP, ED8/McMullen, the
8 Districts, Warren Woodward, Patricia Ferre, Richard Gayer, AARP, TEP, Pima County, Sedona and
9 IO did not sign the Agreement.

10 The purpose of the Agreement is to resolve all issues presented by Docket No. E-01345A-16-
11 0036 (with the exception of the Commercial and Industrial Demand Ratchet (which was reserved for
12 litigation) and the Fuel Audit in a manner that will promote the public interest. The Staff and the
13 other 28 Signatories agree that the terms of the Agreement are just, reasonable, fair, and in the public
14 interest in that the Agreement results in a settlement package that provides both just and reasonable
15 rates and significant benefits to customers.

16 **III. DISCUSSION.**

17 **A. The Proposed Settlement Agreement Was The Result Of A Transparent And** 18 **Open Process And Represents Agreement Among A Diverse Group Of** 19 **Stakeholders.**

20 Settlement discussions began on January 12, 2017. As explained in the testimony of Staff
21 witness Mr. Abinah, the discussions were inclusive and transparent and all participants were given
22 the opportunity to present their views.²⁶ After weeks of meetings, aided by parties' professionalism
23 and willingness to make concessions, a compromise was reached with respect to nearly every issue in
24 dispute.

25 All intervenors were invited to participate in the settlement meetings and discussions. More
26 than 30 parties participated to some degree in the settlement meetings and discussions. Despite
27 significantly divergent positions and interests, all of the parties, signatories and non-signatories alike,

28 ²⁵ Abinah Dir. SA Test., Ex. S-13 at 2.

²⁶ *Id.*

1 engaged in open and transparent negotiations during the development of the Agreement from the
2 commencement of settlement discussion on January 12, 2017 to the filing of the Settlement
3 Agreement on March 27, 2017. The diverse interests participating in this APS rate case include Staff,
4 RUCO, APS, a shareholders association, consumer representatives including AURA and AARP,
5 energy efficiency advocates, low-income consumer advocates, renewable energy advocates, labor
6 unions, large commercial and industrial users, competitive power producers, an association
7 representing consumers in favor of electric choice and competition, individual residential ratepayers,
8 various municipal entities, and the mines.

9 Throughout the settlement process, all parties were notified of settlement discussions and had
10 the opportunity to be present and heard on their issues. Although not all parties were signatories to
11 the Agreement, the Agreement incorporates various provisions that were either direct suggestions or
12 were prompted by the expressed positions of non-signatories. The result is a proposed resolution to
13 the rate case that is balanced and reasonable as demonstrated by the fact that 29 parties signed the
14 Agreement and only 5 of the over 40 parties that intervened filed testimony in opposition to the
15 Agreement.

16 **B. The Agreement Has Many Benefits And Is In The Public Interest and Should Be**
17 **Adopted.**

18 Section 1.5 of the Agreement sets out the significant provisions and benefits of the
19 Agreement:

- 20 1. A \$87.25 million non-fuel, non-depreciation revenue requirement increase, or
21 a reduction of \$58.96 million from APS's original application;
- 22 2. An average 4.54% bill impact for residential customers compared to an
23 average 7.96% bill impact for residential customers in APS's original
24 application;
- 25 3. A refund to customers through the Demand Side Management Adjustor Clause
26 ("DSMAC") of \$15 million in collected, but unspent DSMAC funds to
27 mitigate the first year bill impacts;
- 28 4. A rate case stay out, in which APS agrees not to file a new general rate case
filing prior to June 1, 2019;
5. A program to expand access to utility owned rooftop solar for low and
moderate income Arizonans, Title I Schools, and rural governments;

6. Continuation of a buy-through rate for Industrial and large General Service customers;
7. Continuation of crisis bill assistance for low income customers;
8. More off-peak hours and holidays for time-differentiated rates;
9. A moratorium on new self-build generation until January 1, 2022, and through December 31, 2027, for construction of combined-cycle generating units;
10. An experimental pilot technology rate initially available for up to 10,000 customers;
11. New updated rate designs with rate options for all customers;
12. An educational plan and concerted outreach effort by APS on its various rate plans with transitional rates in place until May 1, 2018 to allow for customer education;
13. Additional discounts for Schools and Military Customers;
14. Resolution of Solar Distributed Generation ("DG") issues for the term of the Settlement Agreement;
15. Agreement by Signing Parties to withdraw any appeals of the Commission's Value of Solar Decisions (Docket Nos. 75859 and 75932); and,
16. Agreement by Signing Parties to refrain from pursuing actions in any forum that are inconsistent with the provisions of the Settlement Agreement.

Still other provisions of the Agreement not mentioned above will benefit ratepayers as well. For instance, a component of the Agreement called the Tax Expense Adjustor Mechanism ("TEAM") could provide benefits to APS's ratepayers if the corporate income tax rates are reduced prior to new rates becoming effective in APS's next rate case. The TEAM will flow through to ratepayers benefits realized by APS relating to any tax reform legislation adopted by the current administration, which could be of significant benefit to ratepayers.²⁷ In addition, to the extent the Agreement overall results in lower capital costs for APS, ratepayers will benefit.

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²⁷ See SA, Ex. APS-29 at Sec. XVI.

1 **C. The Settlement Agreement Balances Consumer And Shareholder Interests.**

2 **1. Residential ratepayers will benefit in many ways from the Agreement.**

3 a. Rate Filing Moratorium.

4 As explained by numerous witnesses, the Agreement is beneficial to residential ratepayers.
5 First, Section 4.2 of the Agreement contains a rate case filing moratorium: APS will not file its next
6 general rate case before June 1, 2019 with a test year end no earlier than December 31, 2018. It was
7 generally recognized by parties that this measure could not be required outside of a settlement context
8 and it provides rate stability for ratepayers.

9 b. Lower Net Base Rate Increase than Originally Requested.

10 The net base rate increase is \$58.96 million lower than requested by APS in its original
11 application.²⁸ The overall rate increase is lower than it could have been had the case been fully
12 litigated. Some parties take issue with the extent to which there is a savings to ratepayers from the
13 implementation of a rate increase that is merely a reduction to what APS initially requested as
14 opposed to what Staff and RUCO initially recommended. However, these parties did not present any
15 independent evidence in support of their opposition to the settlement. In addition, Staff's direct case
16 oftentimes changes in response to subsequent information provided by the Company and the
17 testimony filed by other parties in the case.

18 c. A Reduced Bill Impact for Residential Customers.

19 Sections 1.5(b), 1.5(c) and 4.1 of the Agreement highlight the bill impact to residential
20 customers of the rates contained in the Agreement. Residential customers will have on average a
21 4.54% bill impact compared to an average 7.96% bill impact if the net base rate increase requested by
22 APS in its original application was approved. The overall average net bill impact (when the adjustor
23 transfer and lower fuel costs are considered) will be 3.28%.²⁹ Under the Agreement, the base fuel
24 rate will be lowered from \$0.032071 per kWh to \$0.030168 per kWh.³⁰ In addition, a refund to
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27 ²⁸ SA, Ex. APS-29 at Sec. 1.5(a).

28 ²⁹ Lockwood Dir. SA Test., Ex. APS-2 at 4.

28 ³⁰ See SA, Ex. APS-29 at Sec. 7.1.

1 customers through the Demand Side Management Adjustor Clause ("DSMAC") of \$15 million in
2 collected, but unspent DSMAC funds will be used to mitigate the first year bill impacts.³¹

3 d. More Rate Design Options and Customer Education and Outreach.

4 The settlement also resolves what was poised to be a very controversial battle over residential
5 rate design changes. APS had originally requested a mandatory shift to a narrow band of rate
6 structures. The Agreement instead preserves ratepayer choice.

7 The Agreement's provisions relating to residential rate design and related educational and
8 outreach plans are contained in Sections XVII (Residential Rate Design), XIX (Residential Rate
9 Availability) and XXVII (Five Million DSMAC Allocation). Exhibit A to Staff's Initial Closing
10 Brief (taken from APS witness Meissner's Direct Settlement Testimony at p. 9) clearly sets out the
11 various rate options proposed in the Agreement, the basic service charge associated with each,
12 whether there is a demand charge included, and the eligibility requirements for each particular rate
13 option. This table is essentially a snapshot of the information by rate option contained in Section
14 XVII (Residential Rate Design) of the Agreement. Section 17.8 of the Agreement defines the on-
15 peak period as 3:00 p.m. to 8:00 p.m. weekdays for TOU-E, R-2, R-3 and R-Tech, excluding the ten
16 holidays specified in Appendix F. A super off-peak period from 10:00 a.m. to 3:00 p.m. weekdays in
17 winter months was also added to Rate Schedule R-TOU-E.³²

18 Section XIX (Residential Rate Availability) of the Agreement provides that after May 1,
19 2018, R-Basic Large will be frozen and no longer available to new customers or customers on
20 another rate. New customers after May 1, 2018, may choose TOU-E, R-2, R-3 or if they qualify, R-
21 XS or R-Tech. After 90 days, new customers may opt-out of their current rate and select R-Basic if
22 they qualify. The 90-day provision will give customers an opportunity to understand whether they
23 could benefit from TOU energy or demand rates.³³

24 Finally, under Section XXVII (Five Million DSMAC Allocation), APS will make a one-time
25 allocation of \$5 million from over-collected DSMAC funds to DSM programs "for education and to
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27 ³¹ *Id.* at 4.2.

³² Meissner Dir. SA Test., Ex. APS-6 at 10.

28 ³³ *Id.*

1 help customers manage new rates and rate options including services and tools available to customers
2 to help them manage their utility costs.” APS will provide stakeholders an opportunity to review and
3 comment on its draft educational plan prior to finalizing it.

4 By reaching resolution of this issue, residential ratepayers will continue to have rate options
5 available. Although new APS residential customers will undergo a 90-day trial period with a time
6 variable rate, unless they qualify for the R-XS rate, they will have the ability to select a traditional
7 two-part rate plan following the trial period after experiencing time varying rates. The end result is a
8 package of rate design changes that are measured, appropriate and achieve incremental movement
9 toward the Company’s modernization goals while preserving customer choice.

10 Under the Agreement, APS will also conduct an intensive educational and outreach plan so
11 customers can make informed decisions about the rate plan that is best for them.³⁴ APS witness
12 Lockwood testified that the Company will utilize virtually every channel of communication available
13 to communicate with its customers.³⁵ The Company’s website will give the customer individual
14 information on rate choices that are available and the best rate choice for the customer. The website
15 will also provide tips and tools such as shift, stagger and save. It also will provide information on
16 APS’s energy efficiency programs and how customers can apply for those.³⁶ Social media will also
17 be an important tool utilized by the Company in communicating with their customers.³⁷ Finally, the
18 call center will provide customers personalized assistance in looking at their choices and options.³⁸

19 e. An AMI Meter Opt-Out Program and Reduced Meter Fees.

20 The Agreement further preserves customer choices for ratepayers that wish to decline the use
21 of a “Smart” Advanced Metering Infrastructure (“AMI”) meter. It establishes a monthly meter
22 reading fee for ratepayers choosing to opt out of the Company’s standard metering to a modest \$5 per
23 month rather than the Company’s originally proposed \$15, which reflects the Company’s cost of
24 providing the service.³⁹ In light of the acknowledged foregone economies of scale,⁴⁰ the \$5 monthly

25 ³⁴ Tr. at 313 (Lockwood).

26 ³⁵ *Id.*

27 ³⁶ *Id.*

28 ³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.* at 259.

1 charge adopted by the Agreement is a substantial discount from the real cost to maintain and serve
2 ratepayers who want to use discontinued legacy metering infrastructure and is a benefit to those
3 customers who choose to opt-out of AMI metering. APS witness Lockwood testified that in essence,
4 two-thirds of the cost to provide that service is being subsidized by other ratepayers.⁴¹

5 **2. Benefits to Low Income Customers.**

6 a. Section XXIX of the Agreement.

7 The Settlement continues and enhances low-income provisions that assist those residential
8 ratepayers who are most vulnerable to rate increases. Through the addition of \$1.25 million annually
9 in shareholder supplied funds for the crisis bill program to assist customers with incomes less than or
10 equal to 200% of the Federal Poverty Income Guidelines, these low-income ratepayers will receive
11 direct assistance to defray the impact of the rate increase.

12 In addition, Section XXIX of the Agreement details some other important changes for low
13 income customers. Under Section 29.1, the bill discount for the E-3 Energy Support Program for
14 limited income customers was simplified to provide eligible customers with a flat 25% bill discount.
15 Under Section 29.2, the E-4 Medical Support Program for limited income customers who have life
16 sustaining medical equipment was simplified to provide eligible customers with a flat 35% bill
17 discount. APS witness Meissner testified that these changes provide the same average discount per
18 customer but overall program funding would increase to accommodate growth in participation.⁴² APS
19 witness Lockwood testified that the primary benefit is a significantly increased amount in funding for
20 these limited income programs.⁴³

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26 ⁴⁰ Tr. at 960-61 (by Mr. Woodward: "Now I realize that to read the meters of just the 16 and a half thousand [ratepayers
who opt out of AMI meters] APS no longer has the economy of scale it had reading 1.25 million.")

27 ⁴¹ Tr. at 259 (Lockwood).

⁴² Meissner Dir. SA Test., Ex. APS-6 at 5.

28 ⁴³ Tr. at 316 (Lockwood).

1 b. AZ Sun II Program.

2 Section XXVIII of the Agreement also includes terms that will benefit lower and moderate
3 income residential customers in other ways as well. Through the adoption of the AZ Sun II program,
4 lower and moderate income residential customers, as well as certain schools and rural municipalities,
5 will have the opportunity to obtain rooftop solar facilities and receive a monthly bill credit in
6 exchange for granting the Company rooftop access. Through the AZ Sun II program, APS will invest
7 between \$10 and \$15 million annually over a term of three years. At least 65% of each year's annual
8 program expenditure will be dedicated to residential installations, thus enhancing the opportunity for
9 lower and moderate income ratepayers to take advantage of this bill crediting program.

10 3. **Large Customer or General Service Class Benefits.**

11 The Large Customer or General Service Class directly benefit from adoption of the
12 Agreement as well. APS witness Meissner testified that Commercial and Industrial customers would
13 continue to receive their existing flat and TOU rate choices with limited changes, other than the rate
14 increase.⁴⁴ According to APS, the impact of the rate increase for small and extra-small general
15 service is approximately 0.09%; for medium general service it is approximately 2.21%; for large
16 general service it is approximately 3.45%; for extra-large general service it is approximately 3.58%;
17 for schools it is approximately 1.19%; for houses of worship served under schedule E-20 it is
18 approximately 5.23%; for irrigation it is approximately 3.35% and for outdoor lighting it is
19 approximately 3.35%.⁴⁵ The rate for large General Service customers (rate E-32L) will see an
20 increase in the demand charges of \$1.36 kW, but there will be a corresponding revenue neutral
21 reduction in kWh charges.⁴⁶

22 The Agreement provides several benefits for the Commercial and Industrial customers. The
23 actual operation of the AG-1 experimental tariff adopted by Decision No. 73183 generated much
24 concern from the Company and other stakeholders, including Staff. APS experienced a growing
25 under-recovery and a difficult question arose as to the recoupment of that under-recovery. Likewise,
26

27 ⁴⁴ Meissner Dir. SA Test., Ex. APS-6 at 14.

28 ⁴⁵ *Id.* at 3.

⁴⁶ *Id.* at 14.

1 because the termination date (unlike other rates) was delinked from the effective date of new rates in
2 the Company's upcoming rate case, there was controversy over whether to extend AG-1 or to allow it
3 to terminate on its own terms prior to APS's next general rate case.

4 Ultimately, the Commission approved Decision No. 75322 on November 25, 2015 which
5 provided a stopgap resolution to the various concerns raised regarding AG-1. Per Decision No.
6 75322, AG-1 would continue for existing AG-1 customers. The extension of AG-1 was subject to
7 APS receiving an opportunity to defer unmitigated unrecovered costs from AG-1 after June 30, 2016
8 and until new rates became effective in the Company's next general rate case including 90% of the
9 first \$10 million of such costs, and 100% of such costs above \$10 million.⁴⁷

10 The Agreement at Section XXIII provides for a continuation of AG-1 with revisions. The
11 new program will be called AG-X. Changes have been adopted to the AG-X tariff that anticipate and
12 prevent the under-recovery issues presented by the AG-1 tariff; and improve upon other aspects of
13 the program.⁴⁸ Further, the program is available for up to 200 MW of customer participation; and is
14 expanded to allow more opportunity for qualifying General Service customers to participate.⁴⁹

15 Other rates that will benefit the General Service class (subject to eligibility restrictions
16 include: 1) an aggregation discount for qualified large General Service customers; 2) a rate for extra-
17 large customers with extra-high load factors; and 3) an economic development rate program.⁵⁰

18 Another large customer rate class that stands to benefit from the adoption of the Settlement
19 are military customers which take service under rates E-34 and E-35. Pursuant to the Agreement, the
20 unbundled delivery charge for service to military E-34 and E-35 customers will be discounted to a
21 level that produces a net bill impact for military customers equal to the average for all retail
22 customers.⁵¹ In addition, there is a new rate discount of \$0.0024 per kWh available for public
23 schools and public school districts if they enroll in the SD-1 rider.⁵²

24 . . .

25 _____
⁴⁷ Decision No. 75322 at 7.

26 ⁴⁸ Meissner Dir. SA Test., Ex. APS-6 at 15.

27 ⁴⁹ *Id.*

⁵⁰ See SA, Ex. APS-29 at Sec. XX.

⁵¹ *Id.* at Sec. XXIV.

28 ⁵² Meissner Dir. SA Test., Ex. APS-6 at 15.

1 **4. Provisions Relating to Rooftop Solar Strike an Important Balance.**

2 Some of the most significant provisions of the Agreement relate to the treatment of rooftop
3 solar.

4 The Agreement contains many provisions that address and put to rest for a number of years
5 some of the most contentious issues this Commission and others have faced in recent years. The
6 significance of these provisions cannot be overstated.

7 Some of the more significant provisions of the Agreement related to rooftop solar include
8 Section XVIII (Residential Rate Design for Distributed Generation Customers), Section XVII
9 (Residential Rate Design), Section XXVIII (AZ Sun II), and Section XXXV (Challenges to Decisions
10 No. 75859 and 75932).

11 Sections XVIII and XVII allow DG customers to select from several different rate options.
12 Specifically DG customers are eligible for four different rate schedules including all proposed TOU
13 and Demand rates. DG customers that select TOU-E will be subject to a Grid Access Charge.

14 Section XVIII resolves the contentious issues associated with the Resource Comparison Proxy
15 Rate ("RCP") for exported energy to the grid and does it in a way that all parties agree is consistent
16 with the Commission's Value of Solar ("VOS") Decisions. Section 18.3 provides that the RCP for
17 exported energy will be \$0.129 kWh in year one, which rate is inclusive of transmission, distribution
18 and the line loss components. Customers will be grandfathered on this rate for 10 years. The rate will
19 be updated each year consistent with the VOS Decision.⁵³ Each year there will be a new tranche of
20 customers that will lock that year's rate in for 10 years.⁵⁴ This is consistent with the VOS decision.

21 The grandfathering provisions of the Agreement for customers that file a completed
22 interconnection application before the rate effective date adopted in the Decision in this case are also
23 consistent with the recent VOS and TEP rate case decisions.⁵⁵ DG customers that file a completed
24 interconnection application before the rate effective date adopted in the Decision in this case will be
25 grandfathered for a period of 20 years beginning from the date the system is interconnected with
26

27 ⁵³ SA, Ex. APS-29 at 18.3; RCP Plan of Admin. App. H.

28 ⁵⁴ Meissner, Dir. SA Test., Ex. APS-6 at 4.

⁵⁵ See Decisions No. 75859 (VOS, Jan. 3, 2017), 75975 (TEP, Feb. 24, 2017).

1 APS.⁵⁶ Grandfathered DG customers will continue to take service under full retail rate net metering
2 and will take service on their current tariff schedule for the length of the grandfathering period. Rates
3 will be updated in APS's next rate case with an equal percent increase applied to every rate
4 component equal to the residential average base rate increase approved.⁵⁷

5 The Agreement also specifies a self-consumption offset value for TOU-E of \$0.105/kWh
6 which is inclusive of the Grid Access Charge, but exclusive of taxes and adjustors. After those
7 adjustments, the offset value is approximately \$0.120/kWh.⁵⁸ This is designed to provide a bill
8 savings from solar of \$0.105 per kWh before taxes and adjustments.⁵⁹

9 The Agreement also provides a pilot program which encourages the adoption of new
10 advanced energy saving technologies. APS has agreed to an optional R-Tech Pilot Rate Program
11 which will initially serve up to 10,000 customers.⁶⁰ This is available to customers that adopt certain
12 home energy technologies such as battery storage.⁶¹

13 A critical cornerstone of the heavily negotiated balance struck on these contentious issues is
14 the agreement of parties to withdraw any appeals of the Commission's VOS orders, Decisions
15 No. 75859 and 75932. Paragraph XXXV of the Settlement requires Signatories to withdraw any
16 pending challenges to Decisions No. 75859 and 75932 and to refrain from pursuing any challenges to
17 either Decision in any forum. Further, the Agreement requires a stay of any pending appeals of these
18 Decisions until a final order is issued in the present matter that adopts the material terms of the
19 Agreement. In concert with other provisions of the Settlement that require Signatories to mutually
20 support and defend a Commission Order that adopts all material terms of the Settlement, a separate
21 agreement was executed between APS, the solar providers and their respective affiliates as well as
22 several others, wherein the signatories agree not to take steps to undermine the Agreement in any
23 forum through ballot initiative, legislation or advocacy.

24
25 _____
26 ⁵⁶ SA, Ex. APS-29 at Sec. 18.6.

27 ⁵⁷ *Id.*

28 ⁵⁸ *Id.* at Sec. 18.2.

⁵⁹ Meissner Dir. SA Test., Ex. APS-6 at 4.

⁶⁰ SA, Ex. APS-29 at Sec. 27.7.

⁶¹ Meissner Dir. SA Test., Ex. APS-6 at 4.

1 This unparalleled “truce,” so to speak, should bring a measure of stability to this industry and
2 allow the parties (including the Commission) to devote their resources to other matters as opposed to
3 litigation; which would not have been possible absent the settlement.

4 **5. The Agreement Will Allow APS to Retain its Ability to Attract Capital,**
5 **Recover Investment in the Grid, Maintain Reliability, and Sustain**
6 **Growth, while Moderating the Bill Impact for Customers.**

7 Other provisions are designed to provide benefit to both APS and ratepayers. The Agreement
8 adopts a 10.0% return on equity rather than the 10.5% return that was requested by the Company.⁶² A
9 10.0% return on equity retains APS’s existing authorized return on common equity and is comparable
10 to what other large Arizona utilities have received in the recent past and is thus reasonable.⁶³ The
11 adoption of a 0.8% return on fair value rate base increment likewise is a reduction from the 1.0%
12 requested by the Company.⁶⁴ When combined with the Company’s cost of long term debt and
13 applied proportionally to the undisputed capital structure, the Agreement results in a return on fair
14 value rate base of 5.59%, lower than the 5.84% originally requested by the Company.⁶⁵ While many
15 of these rate related provisions are lower than what the Company originally requested and thus
16 benefit ratepayers; Company witness Lockwood testified that the rate-related provisions will still
17 allow the Company to “retain its ability to attract capital, recover investment in the grid, maintain
18 reliability, and sustain growth, while moderating the bill impact for customers.”⁶⁶

19 The Agreement’s provisions relating to post-test year plant, an accounting deferral and step
20 increase for the Four Corners SCRs, the accounting deferral for the OMP, and the cost deferral
21 related to changes in Arizona property tax rates all provide the Company with the potential to recoup
22 expenses for plant that will be serving customers before APS’s next rate case. Without these
23 provisions, the rate filing moratorium would not have been possible.⁶⁷

24
25
26 ⁶² See Snook Dir. SA Test., Ex. APS-12 at 4; See also Application at 6.

27 ⁶³ *Id.*; Decision Nos. 75975 (TEP, Feb. 24, 2017) at 30, 75741 (AWC, Sept. 19, 2006) at 59.

28 ⁶⁴ Snook Dir. SA Test., Ex. APS-12 at 33.

⁶⁵ *Id.* at 2; See also Application at 6.

⁶⁶ Lockwood Dir. SA Test., Ex. APS-2 at 2-3.

⁶⁷ *Id.* at 7.

1 The Four Corners SCR deferral (addressed in Section IX of the Agreement) is intended to be
2 similar to that authorized in Decision No. 73130 (April 25, 2012).⁶⁸ The deferral will allow the
3 Company to defer expenses for later possible recovery associated with installing SCR equipment at
4 the Four Corners power plant pursuant to EPA mandate.⁶⁹ The rate case will be held open to allow
5 the Company to file a request to adjust its rates through a step increase to reflect the costs associated
6 with the SCRs. APS witness Lockwood testified that Section 9.3 of the Agreement requires the
7 Company to update certain financial statements so that the Commission may “ensure that the
8 additional revenue generated by the step increase does not result in a return on fair value rate base
9 (including the SCR equipment) in excess of that authorized in this Settlement.”⁷⁰ There will be a
10 future proceeding to resolve any issues with regard to the proposed step rate increase relating to the
11 installation of SCR environmental improvements to Four Corners Units 4 and 5.⁷¹

12 Other provisions also permit the Company to defer costs associated with APS’s OMP⁷² and
13 for changes in Arizona’s property tax expense.⁷³ The OMP deferral permits APS to seek recovery of
14 these costs in rates in the Company’s next rate case, at which time the entire OMP investment will be
15 in service.⁷⁴ The SCR and OMP deferrals provide the Company with means to address expenditures
16 made between rate cases for plants that will be serving APS customers.

17 The property tax deferral allows the Company to defer for future recovery (or credit to
18 customers) the Arizona property tax expense above or below the test year due to changes in the
19 Arizona composite property tax rate.⁷⁵ A property tax deferral provision was approved in APS’s last
20 rate case that is similar in some but not all respects to this provision. Importantly, the Company’s
21 property tax deferrals will be subject to review in the Company’s next general rate case for
22 reasonableness and prudence.⁷⁶

23 _____
24 ⁶⁸ Snook Dir. SA Test. at 7, Ex. APS-12 at 7; *See also* Application at 6.

⁶⁹ Lockwood Dir. SA Test., Ex. APS-2 at 6.

⁷⁰ *Id.*

25 ⁷¹ Tr. at 1035 (Smith) (For instance at the hearing, APS and Staff agreed that the return on capital would be addressed in
the proceeding dealing with APS’s application for a step increase.)

26 ⁷² SA, Ex. APS-29 at Sec. X.

⁷³ *Id.* at Sec. XI.

27 ⁷⁴ *Id.* at Sec. X.

⁷⁵ *Id.* at Sec. XI.

28 ⁷⁶ *Id.* at Sec. X.

1 The Agreement also provides for the inclusion of 12 months of post-test year plant in rate
2 base⁷⁷ (as opposed to the 18 months of post-test year plant originally requested by the Company) thus
3 helping to reduce the impacts of regulatory lag.⁷⁸

4 Finally, some adjustments were made to the TCA, LFCR and EIS which should improve their
5 effectiveness and operation. Balancing accounts were added to both the TCA and EIS which act to
6 smooth recovery of these expenses.⁷⁹ A balancing account ensures that the amount of money to be
7 received through an adjustor mechanism is actually the amount of money collected. If in a particular
8 year APS receives more than that amount, the balancing account would return the over recovery
9 automatically to customers. If APS receives less than the amount that it was to collect, the balancing
10 account would then add that back in to the subsequent year.⁸⁰

11 **D. Even Settlement Opponents Recognize The Public Interest Benefits To The**
12 **Settlement Agreement.**

13 Tellingly, even among opponents to the adoption of the Settlement, there are parties that
14 recognize the reasonableness of the Agreement. AARP's witness Mr. Coffman acknowledged that
15 there are many components of the Settlement that would be beneficial to AARP membership in
16 Arizona.⁸¹ As explained by Mr. Coffman, there are AARP members with various energy usage
17 levels. There are low-income AARP members who stand to benefit from the continuation and
18 expansion of the low-income programs contained within the Agreement. Further, AARP has
19 acknowledged that several of the residential rate design revisions are appropriate and AARP takes no
20 issue with them.⁸²

21 SWEEP also acknowledged that there are benefits to the Agreement.⁸³ SWEEP, another
22 opponent of the Settlement, acknowledged through the testimony of Mr. Schlegel that the Settlement
23

24 ⁷⁷ SA, Ex. APS-29 at Sec. 3.2.

25 ⁷⁸ Application at 5.

26 ⁷⁹ Tr. at 884-85 (Snook).

27 ⁸⁰ *Id.*

28 ⁸¹ Tr. at 708 (Coffman).

⁸² AARP contested only three components, the basic service charge and the 90-day "trial period" for new residential customers and the on-peak time period. These AARP concerns were addressed by Staff and other parties. Neither concern is sufficient to warrant a finding that the Settlement Agreement is not in the public interest.

⁸³ *Id.* at 1113 (Schlegel).

1 contains a number of advantageous provisions and that but for a narrow set of specific provisions
2 with which SWEEP disagrees, SWEEP would have joined the Settlement. Specifically, SWEEP
3 indicates that “much of the proposed Agreement may be in the public interest.”⁸⁴

4 **E. The Limited Opposition to the Agreement is Not Compelling.**

5 AARP is critical of three provisions of the Agreement. First, AARP would prefer a basic
6 service charge for the proposed R-Basic rate of \$10 but no higher than \$13 instead of the \$15
7 recommended in the Agreement.⁸⁵ Second, AARP is opposed to the 90-day trial period where new
8 residential customers would need to sign up for a time varying rate after May 1, 2018 and be on that
9 rate for 90 days prior to being able to sign up for the R-Basic rate.⁸⁶ Third, AARP agrees with
10 SWEEP’s concern that the on-peak window of 3:00 p.m. to 8:00 p.m. is too long.⁸⁷

11 AARP’s criticism of the R-Basic service charge is unsupported. AARP does not provide any
12 independent support for its position that the basic service charge should be \$10 but no higher than
13 \$13 except to essentially say that it is “too high” and that “this sharp increase would create fixed
14 charges for those customers that are among the highest in the state, higher than similar customers
15 must pay under the most recent Arizona Commission decisions changing rates for UNS and TEP.”⁸⁸
16 However, AARP acknowledges that UNS Electric currently has a \$15 customer charge for most
17 residential customers.⁸⁹

18 Regarding the second issue, AARP does suggest that as an alternative to eliminating the 90-
19 day period that the Agreement be modified to require written notification to all customers as to all the
20 rate options that would be available after the 90-day trial period.⁹⁰ Importantly there is nothing in the
21 agreement that indicates APS will not be doing exactly that, and is something that could be
22 incorporated in the education and outreach plan that is addressed in the Agreement. In fact, Section
23 XXVII of the Agreement specifies that APS shall file an outreach and education plan and shall
24

25 ⁸⁴ Schlegel Dir. SA Test., Ex. SWEEP-3 at 2.

26 ⁸⁵ Tr. at 695-96 (Coffman).

27 ⁸⁶ *Id.* at 696-97 (Coffman).

28 ⁸⁷ *Id.* at 697 (Coffman).

⁸⁸ AARP Resp. Opp. SA Test., Ex. AARP-1 at 4.

⁸⁹ Tr. at 706-707 (Coffman).

⁹⁰ *Id.* at 698 (Coffman).

1 provide stakeholder with an opportunity for review and comment on the draft plan prior to
2 completing its final plan.⁹¹

3 Finally, regarding the third issue, AARP merely supports SWEEP's position that the on-peak
4 window for the TOU rate is too long. However, AARP does not provide any independent support for
5 its position. In addition, neither AARP nor SWEEP acknowledge the fact that the current on-peak
6 window is much longer than that proposed in the Agreement.

7 SWEEP witness Schlegel testified that there are four provisions in the Agreement that are not
8 in the public interest and do not result in just, fair, and reasonable rates.⁹² First, similar to AARP,
9 SWEEP takes issue with the increases in the basic service charges for the residential and small
10 general service customers.⁹³ Second, SWEEP asserts that the on-peak window for the TOU rates is
11 too long and should be from 4:00 pm to 7:00 pm.⁹⁴ Third, SWEEP also takes issue with the 90-day
12 waiting period restriction that requires new residential customers to try a time varying rate for 90
13 days prior to being able to switch to a traditional two-part rate.⁹⁵ Finally SWEEP takes issue with the
14 application of the collected, but not spent, funds received from ratepayers through the DSM
15 surcharge.⁹⁶

16 Regarding SWEEP's first issue, SWEEP contends that the basic service charge should only
17 include costs associated with meters, billing, meter reading, and customer service using the Basic
18 Customer Method, which would result in a basic service charge for all residential rates of
19 approximately \$8.⁹⁷ However, like AARP, SWEEP has also indicated that the Commission could set
20 the R-Basic basic service charge at \$13, and \$10 for the TOU rate which is close to the \$15 R-Basic
21 rate proposed in the Agreement.⁹⁸ Further, in Decision No. 75975, the recent Tucson Electric Power
22 case, the Commission clearly indicated that it did not reject the Basic Customer Method or adopt the
23 Minimum System Method, but used both methods to inform its policy decision in setting the

24 ⁹¹ SA, APS Ex. 29 at 24.

25 ⁹² *Id.*

26 ⁹³ *Id.*

27 ⁹⁴ *Id.* at 2, 10.

28 ⁹⁵ *Id.* at 3.

⁹⁶ *Id.*

⁹⁷ *Id.* at 5.

⁹⁸ *Id.* at 8.

1 appropriate basic service charge.⁹⁹ Staff asserts that the basic service charges set forth in the
2 proposed Agreement in this case likewise use both methods as a guide. Also it appears to be
3 SWEEP's contention that any rate increase that is approved by the Commission should be put in the
4 volumetric charge, which is merely promoting SWEEP's energy efficiency mandate.¹⁰⁰ Finally it
5 seems SWEEP is more concerned with the effect an increase will have on the residential ratepayers,
6 and not the effect a lower basic service charge will have on APS.¹⁰¹ Thus, unlike the Settlement
7 Agreement, SWEEP's proposed change to the Agreement is one-sided and does not strike the right
8 balance.

9 SWEEP's assertion that the proposed on-peak TOU period is too long appears to be primarily
10 based on convenience and not definitively that APS's on-peak period is something less than 3:00 pm
11 to 8:00 pm.¹⁰² Further to the extent SWEEP has shown that most of APS's system peak is during the
12 4:00 pm to 7:00 pm period suggested, SWEEP also acknowledges that this peak can shift to a later
13 time.¹⁰³ Importantly, the Agreement proposes a significantly shorter on-peak TOU period compared
14 to APS's existing TOU rates, and includes four additional holidays that are considered off-peak
15 hours.¹⁰⁴ Again the Agreement moves in the right direction and achieves a result that balances
16 competing interests, whereas SWEEP's proposed modification is unbalanced and one-sided.

17 SWEEP's criticism of the 90-day trial period for time varying rates is also misplaced.
18 SWEEP asserts, without support, that there is some "significant group of customers for whom time of
19 use or demand rates are not appropriate, and it doesn't make sense to force those customers onto a
20 90-day waiting period."¹⁰⁵ SWEEP's assertion again is without support, and actually mischaracterizes
21 the proposal in the Agreement. After May 1, 2018, the only rate options that will be available for the
22 first 90-days are time varying rates, either TOU or demand rates except for low usage customers that
23
24

25 ⁹⁹ Decision No. 75975 at 64.

26 ¹⁰⁰ Tr. at 1179-80 (Schlegel).

27 ¹⁰¹ *Id.* at 1180.

28 ¹⁰² Schlegel Dir. SA Test., Ex. SWEEP-3 at 9-10.

¹⁰³ Tr. at 1176-77 (Schlegel).

¹⁰⁴ SA, Ex. APS-29 at App. F at 2.

¹⁰⁵ Tr. at 1182 (Schlegel).

1 quality for the R-XS rate. It is only after the 90 days expires that the two part rate option becomes
2 available to those new residential customers that qualify and prefer a traditional two part rate.

3 SWEEP's final issue regarding the Agreement is similarly without merit and, if implemented,
4 would disturb the delicate balance reached by widely divergent interests of the parties who have
5 signed the Agreement. The Agreement proposes that in order to mitigate the first year bill impacts,
6 APS will refund to customers through the DSMAC \$15 million of unspent funds that were collected
7 from ratepayers. It appears to be SWEEP's contention that this money should not be refunded to
8 customers, even though it was collected from them, and instead should be used to fund DSM
9 programs in the future.¹⁰⁶ SWEEP further asserts incorrectly that there is a due process issue if these
10 funds are designated for refund in this case instead of in APS's 2017 DSM Implementation Plan.¹⁰⁷
11 SWEEP's basis for this assertion is that "this issue came up only in the settlement proceedings. So if
12 you're a customer being served by these programs, when would you first have known about it? The
13 first possible time you could have known about it, if you weren't in the settlement was when the term
14 sheet was published..."¹⁰⁸ However, SWEEP also acknowledges that the funds in question are not
15 funding any current programs that would be terminated as a result of the refund of this money that
16 belongs to ratepayers.¹⁰⁹ SWEEP also admits that there is nothing that would prevent the
17 Commission from ordering the refund of the \$15 million in collected but not spent customer funds
18 either through the approval of the Agreement or through APS's DSM Implementation Plan.¹¹⁰

19 Various criticisms by Mr. Woodward and/or Mr. Gayer were also directed at the
20 appropriateness of the Company's implementation of the AMI meter transition and the Agreement's
21 provisions regarding the rate impacts associated with customers who exercise the option to elect a
22 non-standard meter in lieu of an AMI meter. As noted by Company witness Bordenkircher, there are
23 various benefits from the broad conversion to AMI metering including providing ratepayers with
24 detailed usage data, as well as indirect benefits such as lowering APS's operating costs related to
25

26 ¹⁰⁶ Schlegel Reb. SA Test., Ex. SWEEP-4 at 13.

27 ¹⁰⁷ Tr. at 1142-43 (Schlegel).

28 ¹⁰⁸ *Id.* at 1143 (Schlegel).

¹⁰⁹ *Id.* at 1167-68 (Schlegel).

¹¹⁰ *Id.* at 1169 (Schlegel).

1 meter reads, customer move-in/move-out, and meter rate changes which can now be performed
2 remotely.¹¹¹ The Company likewise realizes benefits with AMI metering since it allows the Company
3 to provide ratepayers with proper voltage and the ability to observe attempts at meter tampering.¹¹²

4 In contrast to the benefits, there are costs to non-implementation of AMI metering. As
5 acknowledged by Mr. Woodward, among the more obvious consequences of retaining a non-AMI
6 meter is that serving the approximately 16,500 customers on non-standard metering foregoes
7 economies of scale when performing meter reads.¹¹³ Further, as explained by Mr. Bordenkircher, the
8 supply of legacy analog meters is dwindling because they are no longer manufactured.¹¹⁴ Likewise, it
9 can be anticipated that maintaining the existing meters will become steadily less viable over time
10 because there is a limit to how often a piece of equipment can be refurbished before it must
11 ultimately be replaced.¹¹⁵ In light of the long-term maintenance burdens that flow from supporting
12 legacy infrastructure like analog meters, the Agreement's incorporation of a \$50 change out fee to
13 replace an AMI meter with an analog meter and a modest \$5 monthly meter reading fee¹¹⁶ is
14 appropriate.

15 There was also an issue raised by Mr. Woodward regarding the change-out of AMI meters
16 before the end of their service lives and the appropriate depreciation rate for the meter account. APS
17 witness Bordenkircher testified that a large number of meters were changed out due to a
18 manufacturing defect.¹¹⁷ Mr. Bordenkircher testified that approximately 140,000 of its initially
19 deployed meters were replaced due to the change of cellular technology being supported by the
20 AT&T Wireless network.¹¹⁸ He also testified because of this APS took steps to ensure that the
21 vendor bore the responsibility of the cost of those trade-outs.¹¹⁹ There was also concern with APS's
22 change of useful life for AMI meters from 26 years to 20 years a change with which Staff concurred.

23
24 ¹¹¹ Bordenkircher Reb. SA Test., EX APS-10 at 3.

25 ¹¹² *Id.* at 3-4.

26 ¹¹³ Tr. at 960-61 (Woodward).

27 ¹¹⁴ Bordenkircher Reb. SA Test., Ex. APS-10 at 8.

28 ¹¹⁵ Tr. at 765(Bordenkircher)

¹¹⁶ SA, Ex. APS-29 at Sec. XXX.

¹¹⁷ Tr. at 764 (Bordenkircher).

¹¹⁸ *Id.* at 1008 (Smith).

¹¹⁹ *Id.*

1 As part of the overall agreed-upon resolution among the signing parties concerning depreciation
2 issues the Settlement Agreement, among other things, reflects the estimated useful life of 20 years for
3 APS's AMI meters.

4 Staff witness Smith testified that for AMI meters, there is not the same type of lifecycle
5 retirement history available for the entire deployment of the AMI meters. Therefore, Mr. Smith's
6 estimation of the useful life of the AMI meters had to look to other criteria. Mr. Smith stated that he
7 looked at all the data that had been presented in the current case and the fact that APS had some
8 premature retirements on its earlier deployments, what other electric companies are using as a useful
9 life, and the information provided by Mr. Woodward. But because there wasn't full mortality data
10 available for the AMI deployments for any utility, and after considering all the available data, Mr.
11 Smith used his informed judgment to come to the 20 years useful life.¹²⁰ Moreover, as confirmed by
12 APS witness Mr. Bordenkircher, if the depreciation rates are not borne out by working experiences,
13 they can be adjusted in a future rate case with what may be a more appropriate useful life.¹²¹

14 Finally, the Districts objected to the process itself and the fact that the case settled at an
15 amount higher than contained in Staff or RUCO's direct cases. However, the diverse array of
16 interests that signed onto the Agreement is testament to the fact that the process was fair, balanced,
17 open and transparent. In addition, the Districts did not present any revenue requirement or rate
18 design testimony in this case.

19 **F. Several Matters Were Not Directly Resolved By The Settlement But Parties**
20 **Agreed to Present their Case to the ALJ and Commission.**

21 **1. Commercial and Industrial Demand Ratchet.**

22 Although the Settlement Agreement is largely comprehensive of all matters in dispute that
23 were raised by APS's application, some matters were acknowledged by the Settlement but expressly
24 reserved for separate consideration. Principally, these matters relate to the Commercial and Industrial
25 demand ratchet issue that is in dispute between APS and EFCA and the fuel audit that Staff
26 performed on the Company.

27 ¹²⁰ *Id.* at 1013-17 (Smith).

28 ¹²¹ *Id.* at 766 (Bordenkircher).

1 With regard to the demand ratchet issue for the Commercial and Industrial rate, Staff was
2 hopeful that the interested parties would resolve this issue. The interested parties were unable to do
3 so. Staff does acknowledge that in the recent TEP Decision No. 75975, the Commission, through an
4 amendment, required TEP to make a non-ratchet rate available to the LGS customer class.¹²² Staff
5 supports that decision.

6 **2. APS Fuel Audit.**

7 Regarding the APS fuel audit, as described within the audit report produced by Mr.
8 Schumaker, Staff finds APS's fuel purchasing practices to be largely reasonable. In the report, Mr.
9 Schumaker identified six recommendations for APS to pursue. Per Mr. Schumaker's analysis, APS
10 should (1) perform a study to determine if changes can be made to the coal supply chain to yield
11 some plant efficiencies; (2) improve spreadsheet usage and associated references and cross-references
12 on how used; (3) have internal or external auditors audit PSA filings, as they have yet to address PSA
13 filing procedures; (4) incorporate more detailed implementation steps, including sample screen prints,
14 in Monthly PSA Filings documentation, plus risk management documentation, which should be
15 reviewed and modified, as necessary, at least annually; (5) develop formal written documentation for
16 supplemental fuel charges or refunds; and (6) when a counterparty vetting shows that it is
17 overexposed, perform system configuration updates to highlight the issue for APS traders on a daily
18 basis.¹²³

19 The Company is in overall agreement with the results of the audit with the exception of two of
20 the recommendations.¹²⁴ The first issue relates to the third recommendation concerning use of
21 internal or external auditors to audit PSA filings. While APS agrees with the substance of the
22 recommendation, the Company recommends delaying the implementation of the recommendation by
23 18 months in order to implement the other recommendations in the fuel audit.

24 The second recommendation that concerns APS is the sixth recommendation relating to the
25 vetting of overexposed counterparties. APS's concern stems from the recommendation's suggestion
26

27 ¹²² Decision No. 75975 at 188.

¹²³ Schumaker Fuel Audit Test., Ex. S-9 at 3.

28 ¹²⁴ Lockwood Reb. SA Test., Ex. APS-3 at 10-11.

1 that the proposed system modifications be immediately reconfigured to disallow transactions with the
2 overexposed counterparty. The Company asserts that this recommendation conflicts with industry
3 best practices and could impair the reliable operation of APS's system.

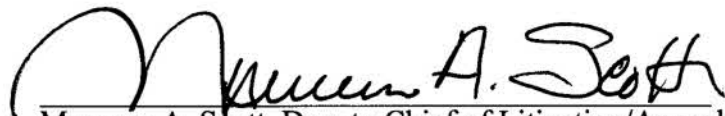
4 In light of clarifications provided by the Company, Staff recommends that the Company be
5 granted 18 months to implement changes recommended by the Fuel Audit prior to commencing
6 internal or external audits of PSA filings. Further, based upon Staff's understanding that APS's
7 current system for its traders does notify them that a counterparty is overexposed,¹²⁵ Staff agrees that
8 the sixth and final recommendation is unnecessary and can be removed.¹²⁶

9 With these two modifications, Staff believes that all of the remaining recommendations
10 concerning the Fuel Audit are reasonable and appropriate and should be adopted.

11 **IV. CONCLUSION.**

12 For all the above stated reasons, Staff believes the Agreement is fair and in the public interest
13 and should be adopted.

14 RESPECTFULLY SUBMITTED this 17th day of May 2017.

15
16 

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25
26
27 ¹²⁵ Tr. at 736-37 (Schumaker).

28 ¹²⁶ *Id.*

On this 17th day of May, 2017, the foregoing document was filed with Docket Control as an Utilities Division Brief, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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Docket No. E-01345A-16-0036, *et al.*

EXHIBIT A

Table 3 Residential Rate Choices
(Proposed in Settlement)

Rate	Basic Service Charge ⁴	Demand Charge per kW/Mo.	Requirements
R-XS	\$10	None	0-600 kWh
R-Basic	\$15	None	601-1000 kWh
R-Basic Large	\$20	None	> 1000 kWh
R-TOU-E	\$13	None	None
R-2 (TOU-D)	\$13	\$8.40	None
R-3 (TOU-D)	\$13	\$17.438 summer \$12.239 winter	None
R-Tech (TOU-D)	\$15	\$20.25 summer-peak \$6.50 summer-off > 5 kW \$14.25 winter-peak \$6.50 winter-off > 5 kW	Technology adoption, First 10,000 customers

⁴ Basic service charges are charged on a per day basis. The amounts shown are illustrative for a typical month.